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UNCLAS KUALA LUMPUR 001300

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STATE PASS USTR - WEISEL AND BELL
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E.O. 12958: N/A

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SUBJECT: Stock market end-of-day partial recovery

¶1. Summary: The Malaysian stock market began to recover at the end of the day Friday after dropping 11 percent from its Wednesday opening of 1288 points to a low of 1148 by 3:00 p.m. Friday. In the last two hours of the day the market began to recover, closing at 1192 points, resulting in a seven percent drop over the three-day period. The central bank has been intervening in the currency markets, but government representatives have told the press that they do not perceive a need to intervene in local securities markets. The market is up 27 percent since August 16, 2006.

¶2. Bursa Malaysia (formerly Kuala Lumpur Stock Exchange) closed at 1207.61 on Thursday, August 16, dropping another 44 points after having dropped 36 points on Wednesday. By 3:00 p.m. on Friday, August 17, Bursa Malaysia had dropped another 60 points. The total 140-point drop amounted to eleven percent of market value. The market then began to rally, recovering 44 of its lost points by 5:00 p.m. to close at 1192, representing a seven percent drop since Wednesday's opening. Even with the three-day drop, the Malaysian stock market remains 27 percent higher than its level of 938 points one year ago.

¶3. Deputy Finance Minister Dr. Awang Adek indicated to the press that the government would not be intervening, saying of the decline, "It's all originating from abroad. It's quite common to see these effects spill over to the rest of the world."

¶4. In a farewell call by the Ambassador, Central Bank Governor Dr. Zeti Aziz mentioned that the Government was intervening to help maintain stability in the currency market. However, according to press reports, the GOM is not intervening in securities markets. An August 16 article in the local press quotes Dr. Zeti saying, "It is not necessary to inject any liquidity into the financial market."

¶5. Local banks are providing their reassurances to the public as well. "AmBank group does not have any exposure to the sub-prime mortgage market in the U.S. and will not be directly affected by the crisis as its business activity is only within South-East Asia," AMMB Holdings Bhd group managing director, Cheah Tek Kuang is quoted in the local press. Nazir Razak, CEO of CIMB, a larger Malaysian bank, also told the press that his firm was not exposed to U.S. subprime woes.

¶6. COMMENT: The Malaysian market fundamentals remain strong; however, some confidence has been eroded. The ongoing drop could be a natural correction in light of the market's strong gains over the past year, but it is unlikely to result in a tailspin. If the situation gets much worse, the GOM is likely to intervene in light of national elections expected in early 2008.